

STATEMENT BY
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OF
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BEFORE THE
HOUSE SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND
CONSUMER CREDIT

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Good morning, Chairman Bachus and ranking member Waters. I appreciate the opportunity to appear before this distinguished Subcommittee in order to testify on proposed legislation known as the "Check Clearing for the 21st Century Act." I am Joel Biggerstaff, CEO of AirNet Systems, Inc., a time-critical shipments air courier headquartered in Columbus, Ohio.

With over 130 aircraft and with Department of Defense certification, AirNet is recognized as an industry leader in the transportation of checks, time-sensitive medical shipments, cargo charter, passenger charter, critical parts and other top-priority deliveries. AirNet employs over 1100 team members with over 300 ground couriers supplementing industry leading door-to-door service.

As a participant in the payments system for some 30 years, AirNet applauds your efforts to improve the overall efficiency of the nation's check clearing system. We are proud of the part our company has always played in ensuring the swift and reliable collection and processing of checks. We estimate that AirNet flies 65% to 70% of all checks that are flown from point to point throughout the nation on a nightly basis. The remaining checks are flown either on the Federal Reserve's Check Relay Network, by large integrators such as UPS or on commercial airlines.

On September 11, 2001, we, like you, were in shock at the news that our country was under attack from the air. The Federal Aviation Administration's (FAA) response, of course, was immediately to ground all aircraft nationwide that morning. This was the one and only time the FAA has ever acted to close domestic national air space (NAS).

Despite the closing of the NAS, however, we at AirNet were called upon to make several flights on September 11 for the American Red Cross under what is known as "lifeguard flight" status. We were in the air at 3:37 that afternoon on the first of four flights that day. The next day, September 12, we flew another eight lifeguard flights while NAS was still closed.

Our banking customers, of course, still had checks to move. To solve that challenge, we put into place a massive ground operation to cover as much territory as possible for our bank customers while NAS was closed.

On September 13, with the re-opening of NAS scheduled for that evening, AirNet received a call from the Federal Reserve. The Federal Reserve was requesting our assistance to coordinate the massive movement of checks that had been awaiting processing since the 11th. We were happy to respond. In fact, Mr. Chairman, we were in contact with this Committee during that time to advise of our ongoing work plans and to seek logistical assistance with the Department of Treasury in clearing our aircraft.

On the evening of the 12th, AirNet helped move over 500,000 pounds of checks (5 times the normal amount transported on a typical night) and moved another 275,000 pounds later that weekend.

One letter of thanks from a customer illustrates the quality of our performance:

"On behalf of Float Management at Bank of America, I would like to express our sincere thanks for your dedication to service during the recent tragedy. Your commitment to your customers has always been evident in your customer service and delivery quality, but recent events have proved

your competent staff to be exceptional....Thank you again for your dedication to keeping the payment system 'moving.' " -- Tracy Haynes, Sr. VP, Bank of America.

With your permission, Mr. Chairman, we would like to offer for the record a number of similar commendations from our customers and from the Red Cross.

The FAA took the right and necessary decision on September 11. It was essential that NAS be closed. However, with all due respect to some in support of the measure being considered, reducing the impact of air service disruption to the payments system does not require the passage of new legislation. The impact of this disruption could have been significantly reduced and perhaps completely avoided had the transportation of checks in the payments system been given "lifeguard" status.

The electronic transmission of check images is no guarantee of uninterrupted check processing. Electronic systems are much more sensitive to disruption than air transportation and, indeed, cyber-terrorism is perhaps one of the greatest threats we now face. Moreover, even with passage of the Check Clearing for the 21st Century Act, truncation would not be mandatory and air transportation would continue to be crucial. Should events in the future ever cause the closing of NAS again, the air transportation of checks can be guaranteed by the simple designation of "lifeguard status" to these critical shipments.

The electronic transmission of check information, side-by-side with air transportation, represents a fundamental principle of safe and sound banking: redundancy. The full functioning of these two methods of check processing ensures the long-term integrity of the payments system. Indeed, a policy that dismantles the air transportation infrastructure could represent a threat to the integrity of the payments system.

In this regard, the Federal Reserve, along with other agencies, recently requested comment on a draft White Paper entitled "Sound Practices to Strengthen the Resilience of the U.S. Financial System." The White Paper refers to "core clearing and settlement organizations" which it defines as "firms that provide ... critical clearing and settlement services for critical financial markets in sufficient volume or value to present systemic risk in their sudden absence, and for whom there are no viable immediate substitutes."¹

The events of last September illustrate that AirNet is a "core clearing and settlement organization." Its ability to operate was and is essential to the functioning of the U.S Financial System. We therefore urge that this Subcommittee, during future deliberations on this legislation, seriously consider conferring lifeguard status for air transportation activities associated with the payments system.

¹Draft Interagency White Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System, Board of Governors of the Federal Reserve System [Docket No. R-1128], p. 5.

Mr. Chairman, by supporting the lifeguard designation for the payments system, by supporting a policy to protect redundancy in check processing infrastructure, and by supporting transportation as a core clearing function, you will promote and improve the overall efficiency of the payments system, which is the stated goal of this legislation.

Approximately two years ago, Federal Reserve Chairman Alan Greenspan, in remarks delivered to NACHA, described check truncation as a notable electronic payment “experiment” that warranted careful attention. Today, this Subcommittee is being presented legislation seeking to codify this “experiment” in response to an effort by a few in the banking industry who stand to benefit mightily from its enactment.

But is this legislation really necessary? We respect the Federal Reserve’s desire to speed the movement away from paper checks to electronic transactions. Yet, we would observe that the Federal Reserve’s own recent Study² of check volume shows that the use of paper checks has dropped dramatically in recent years, much more than the banking industry had previously thought. A slighter newer study by the same consulting firm that assisted the Fed in 2001 concluded that about 42 billion checks were written in 2001. The 2001 Study had reported approximately 50 billion checks were written in 2000, which was itself startling since the industry-wide assumption had placed the check volume figure at 68 billion.

² *Depository Financial Institution Check Study*, published in the August 2002 Federal Reserve Bulletin.

The most recent study found that check volumes declined by 2% from 2000 to 2001. It also found that 67% of the financial institutions surveyed reported a decline in the average daily volume of paper checks processed. It thus appears that paper checks will gradually be eliminated in favor of electronic forms of payment, without Congressional intervention.

Is it wise, in seeking to increase the number of checks that are truncated, to adopt a contorted solution that introduces many unknowns into the check collection process when, in fact, the volume of paper checks is dropping through natural evolution?

Our purpose in testifying today is not to pass judgment on the specifics of this proposed legislation. We do, however, urge this Subcommittee to examine the details of this proposal carefully and to analyze the collateral impact of its provisions. We look forward to a robust discussion within the Subcommittee of these important issues.

Thank you, Mr. Chairman, for the opportunity to testify and I would be pleased to answer any questions you or the members of the Subcommittee may have.
